

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 202268-0001

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OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 202268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. 2000-1

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**JOINT INITIAL BRIEF**

**OF**

**AMERICAN BANKERS ASSOCIATION**  
**AND**  
**NATIONAL ASSOCIATION OF PRESORT MAILERS**

**(September 13, 2000)**

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## TABLE OF CONTENTS

	<u>Page(s)</u>
Table Contents .....	2
Table of Authorities .....	4
I. ABA&NAPM's Proposed Discount And Rates For First Class Mail.....	5
II. Under Any Reasonable And Consistent Measure, Cost Avoidance Of Automated Basic, 3-Digit, And 5-Digit FCLM Has Continued To Increase Since R97-1 And Supports The Discounts Proposed By ABA & NAPM.....	5
A. USPS Cost Witness Miller Himself Concedes That Cost Avoidance Of Automated FCLM Is Not Decreasing.....	6
B. Dr. Clifton's Direct Testimony (ABA&NAPM-T1-1) Demonstrates That Cost Avoidance of Automated FCLM Is Increasing .....	6
C. MMA Witness Bentley's Direct Testimony, Utilizing Commission R97-1 Methodology, Also Demonstrates Large Automated FCLM Cost Avoidance Which Fully Supports The Discounts Proposed By ABA&NAPM .....	8
D. The USPS Order No. 1294 Filings Incorporating Actual 1999 Cost Data and "Updated" Cost Change Factors, Even As Supplemented With USPS Responses To POR No. R2000-1/116, Are Incomplete With Respect To Automated FCLM Cost Avoidance, Contain Significant Flaws, And Should Not Be Used By The Commission To Measure Automated FCLM Cost Avoidance.....	9
E. If The Commission Determines That It Will Use The USPS Order No. 1294 Filings To Calculate Automated FCLM Cost Avoidance, It Should Split The Difference In Cost Avoidance Between That Which Results From The 1999 IOCS Methodology And That Which Results From The 1998 IOCS Methodology, Giving More Weight To The 1999 IOCS Methodology .....	13
III. The Automated Cost Avoidance Estimates In This Case Are All Understated In That They Fail To Include Cost Savings From Compliance With Move Update Requirements And Several Other Worksharing Tasks Performed By Automated FCLM Mailers .....	15

A.	What is \$1.5 Billion In Move Update Savings Among Friends? .....	15
B.	The Postal Service, ABA&NAPM And MMA Cost Avoidance Estimates Also Exclude Savings From Many Other Significant Cost Saving Features of Automated FCLM .....	17
IV.	The Bulk Meter Mail Benchmark Has Lost Its Usefulness And Sends The Wrong Signal To Mailers .....	18
V.	There Is No Basis In The Record To Increase The FCLM Extra Ounce Rate To Twenty-three Cents, As Proposed By The USPS; The ABA & NAPM Proposal To Leave Such Rate At Twenty-two Cents Should Be Recommended By The Commission .....	20
VI.	ABA&NAPM's Unrebutted Proposal To Extend The 4.6 Cent Heavy Weight Discount To The Second Ounce of First Class Presort Mail Corrects An Illogical Glitch In The Presort Rates, And Would Provide A Much Needed Incentive To Increase The Volume Of Automated First Class Flats .....	23
VII.	The ABA & NAPM Discount And Rate Proposals Result In Cost Coverages Which Are More Consistent With Fairness And Equity And With Prior Commission Precedent, And Are Supported By Dr. Clifton's Cost Models Which Demonstrate That They Can Be Implemented Without Causing Any Deficit In The Test Year .....	24
VIII.	The Postal Service's Requested Contingency is Too Large .....	27
IX.	The ABA & NAPM P Stamp Proposal Is Innovative, Not Complicated, And Unlike the PC Postage, Meter, And CEM Discount Proposals, Would Allow All Single Piece Mailers To Benefit From the USPS Automation Program .....	28
X.	The E-Stamp PC Postage Discount Proposal Is Based Upon Gross Over Estimates Of Cost Avoidance Which Are Measured In A Vacuum And Fail To Take Account Of Real World USPS Mail Processing Operations .....	30
XI.	The Stamps.com PC Postage Discount Proposal And The Pitney Bowes Meter Mail Discount Proposal Are Each Based Upon Cost Savings Which Are Also Recognized By Automated FCLM But Which Are Not Reflected In Automated FCLM Discounts .....	32
Exhibit A	.....	34

## TABLE OF AUTHORITIES

### CASES

Page(s)

Association of American Publishers, Inc. v. Governors of USPS,  
485 F.2d 768 (D.C. Cir. 1973)

### STATUTES

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PRC Op. MC95-1, ¶ 4022

PRC Op. R90-1, ¶ 4022

**I. ABA & NAPM's Proposed Discounts and Rates For First Class Mail**

Set forth below are the discounts and rates proposed by ABA and NAPM in this case, along with the discounts and rates currently in effect, and the discounts and rates proposed by the USPS.

**A.**

<u>Mail Type</u>	<u>ABA/NAPM R-20001</u>	<u>Current Rates/ Discount</u>	<u>USPS-R-20001</u>
Automated Basic FCLM Discount	6.6 Cents Discount	6.0 Cents Discount	6.0 Cents
Automated 3 digit FCLM Discount	7.8 Cents Discount	6.9 Cents Discount	6.9 Cents
Automated 5-digit FCLM Discount	9.5 Cents Discount	8.7 Cents Discount	8.7 Cents
Heavyweight Discount FCLM	4.6 Cents for 2d ounce and for 3d ounce	4.6 Cents Discount for 3d ounce	4.6 Cents Discount for 3d ounce
Additional Ounce FCLM	22 Cents Rate	22 Cents Rate	23 Cents Rate
P-Stamp <sup>1</sup>	32 Cent Rate	None	None

**II. Under Any Reasonable And Consistent Measure, Cost Avoidance Of Automated Basic, 3-Digit, And 5-Digit FCLM Has Continued To Increase Since R97-1 And Supports The Discounts Proposed By ABA & NAPM**

**A. USPS Cost Witness Miller Himself Concedes That Cost Avoidance Of Automated FCLM Is Not Decreasing.**

USPS cost witness, Miller (USPS-T-24), presented in this case a radically new costing methodology which resulted in a reduced measurement of cost avoidance for automated First Class Letter Mail ("FCLM") compared to that resulting from the USPS method in R97-1. USPS rate witness, Fronk (USPS-T-33), then suggested that if cost avoidance is shrinking this could result in decreased workshare FCLM discounts in the future.

However, USPS witness Miller's reduced measurement of cost avoidance for automated FCLM was due to his radical new methodology, and not to any actual shrinkage of cost avoidance. Ultimately, Miller himself was forced to admit,

"I do not have the view that cost avoidance is shrinking."<sup>2</sup>

**B. Dr. Clifton's Direct Testimony (ABA & NAPM-T1-1) Demonstrates That Cost Avoidance of Automated FCLM Is Increasing.**

In his Direct Testimony, Dr. Clifton demonstrates at Figure 1 that longer term trends in First Class Mail Total Unit Attributable Costs from 1992 to 1999 show a continued increase in the gap between single-piece and presort First Class Mail ("FCM").<sup>3</sup> The trends reflected in Dr. Clifton's Figure 1 demonstrate an important point, which is that even if costs for single-piece FCM may decrease, cost avoidance for presort FCM may still increase as long as costs for presort FCM decrease by more than do costs for single piece FCM. Figure 1 of Dr. Clifton's testimony demonstrates that this is precisely the case.

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<sup>1</sup> As described herein, the P-Rate applies to single piece mail delivered to a P-Stamp collection box with a P-Stamp or meter imprint and subsequently upgraded by the workshare mailer to an existing FCLM workshare rate category.

<sup>2</sup> Miller Interrogatory Response to ABA & NAPM/USPS-T24-26(b) at Tr. Vol. 7, page 3071.

<sup>3</sup> Clifton Direct Testimony (ABA & NAPM-T1) at Tr. Vol. 26, page 12407.

Furthermore, Dr. Clifton points out that much of the decline which his Figure 1 shows in First Class Total Unit Attributable Costs is due to a CRA methodological change made by the USPS between 1996 and 1997 when it altogether eliminated the second largest traditional cost component in Cost Segment 3 of the CRA . . . mail processing overhead. This methodological change, which had nothing to do with actual cost reduction, dropped total unit volume variable costs for First Class single-piece mail from 26.1 cents per piece in 1996, to 21.8 cents per piece in 1997. The impact of this change on volume variable costs for First Class Presort was less. Therefore, the result of this CRA methodological change from 1996 to 1997 was to overstate reduction in First Class Total Unit Attributable costs, and to understate cost avoidance between single-piece FCM and presort FCM.<sup>4</sup>

Dr. Clifton then proceeds to demonstrate that when measured on a consistent basis (either applying the USPS R2000-1 methodology to Test Year '98 data and the Test Year 2001 data, or applying the USPS R97-1 methodology to the Test Year '98 data and the Test Year 2001 data) the result is the same . . . cost avoidance for automated FCLM is increasing.<sup>5</sup> Under an apples-to-apples comparison, cost avoidance is increasing for automated basic, 3 digit and 5 digit FCLM.

Next, Dr. Clifton makes reasonable and necessary revisions to Miller's cost avoidance calculations by adding back 12 of the 35 cost pools excluded by Miller from the cost avoidance equation as "non-worksharing" related fixed."<sup>6</sup> Lastly, Dr. Clifton adds USPS witness Daniel's (USPS-T28) delivery costs, and

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<sup>4</sup> Id. at Page 12406, Lines 1-15.

<sup>5</sup> Id. at Pages 12415 and 12416, Figures 4 and 5.

<sup>6</sup> In so doing, Dr. Clifton correctly notes that by creating this new category of "non-worksharing related" costs, and then excluding them from the cost avoidance equation, Miller had excluded from the calculation of automated FCLM cost avoidance numerous cost pools which USPS witnesses Hatfield and Smith had included in the automated FCLM cost avoidance equation in R97-1 and MC95-1 respectively (the R97-1 costing methodology defines 79% of the mail processing cost pools as being workshare-related, whereas Miller in R2000-1 defined only 33% as

arrives at a reasonable and conservative measure of cost avoidance which fully supports the ABA & NAPM proposed discounts for automated basic, 3-digit, and 5-digit FCLM (see the first column of Table 1 at Exhibit A hereto for these cost avoidance figures).

*Dr. Clifton's adjustments to USPS witness Miller's cost avoidance measurements have been unrebutted by the Postal Service or any of the Intervenor witnesses.*

**C. MMA Witness Bentley's Direct Testimony, Utilizing Commission R97-1 Methodology, Also Demonstrates Large Automated FCLM Cost Avoidance Which Fully Supports The Discounts Proposed By ABA&NAPM.**

In his direct testimony on behalf of Major Mailers Association, Richard Bentley adjusts USPS witness Miller's methodology of measuring automated FCLM cost avoidance by adopting the Commission R97-1 100% volume variability methodology and by adopting the Commission's R97-1 methodology of utilizing two categories of cost pools, (i.e., workshare-related proportional and workshare-related fixed), instead of Miller's three categories.<sup>7</sup>

This results in automated FCLM cost avoidance figures which are larger than those measured by Dr. Clifton, and which fully support the automated basic, 3-digit, and 5-digit FCLM discounts proposed by ABA & NAPM. See first column of Table 2 at Exhibit A hereto.

As did Dr. Clifton, Bentley utilized a benchmark of metered mail, instead of bulk metered mail. For the reasons explained in Section IV below, the most appropriate benchmark to be used is single piece FCLM; but if metered mail is to be used, single piece metered mail is more logical than bulk-metered mail. However, even had Bentley used the BMM benchmark, this would only have

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being workshare-related). Clifton Direct Testimony (ABA & NAPM-T1) at Tr. Vol. 26, Pages 12424 & 12426.

<sup>7</sup> Bentley Direct Testimony (MMA-T1) at Tr. Vol. 26, Page 122872 & 12288.



reduced his cost avoidance measurements for workshare FCLM by 0.3 cents per piece, which would result in a level which still fully supports the ABA & NAPM proposed discounts.

**D. The USPS Order No. 1294 Filings Incorporating Actual 1999 Cost Data and "Updated" Cost Change Factors, Even As Supplemented With USPS Responses To POR No. R2000-1/116, Are Incomplete With Respect To Automated FCLM Cost Avoidance, Contain Significant Flaws, And Should Not Be Used By The Commission To Measure Automated FCLM Cost Avoidance.**

When the Commission issued Order No. 1294 in an effort to include 1999 actual cost data in the record, it set in motion a flurry of filings and counter-filings which caused considerable confusion about what impact, if any, such filings would have upon cost avoidance for automated FCLM mail. The USPS Order 1294 filings, as supplemented by the POR No. R2000-1/116 USPS Updated Library References, have not been supported or adopted by any witness as a reasonable basis to measure automated FCLM cost avoidance, contain serious flaws, and provide no reasonable evidentiary basis upon which the Commission can calculate automated FCLM cost avoidance.

First there were the July 7 and 21, 2000 USPS updates in response to Order No. 1294 incorporating 1999 actual costs and "updated" cost change factors.<sup>8</sup> Although this 1999 actual cost data may help the Commission on other

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<sup>8</sup> As pointed out by Dr. Clifton in his Revised And Updated Supplementary Testimony (ABA&NAPM-ST-1, Revised 8/23/00), the cost change factors utilized by the USPS in its Order No. 1294 revisions were skewed in favor of single piece FCLM relative to automated FCLM (as well as in favor of Standard Mail relative to First Class Mail). For example, Dr. Clifton explains that the "break-through productivity" cost reduction initiatives utilized by the USPS in these filings were inexplicably heavily skewed toward automation mail in Standard A Commercial Regular and non-automation mail in First Class Mail. Tr. Vol. 45, Page 20093, Lines 5-21. Indeed these USPS updates to cost change factors in the form of projected cost reduction programs were based not on actual studies, but rather USPS Postal Management Budget Projections. It was the potential for just this type of manipulation of cost change factors which caused ABA&NAPM to request the Commission to prohibit, or at least discourage, the USPS from muddying the waters of the 1999 actual cost data with

issues, the USPS itself acknowledged that this information did not allow any calculation of automated FCLM cost avoidance.<sup>9</sup>

Next there were the August 18 and 21, 2000 USPS Library References updates, LR-1-467 and LR-1-468 in response to the MMA Motion To Compel and POR No. R2000-1/116. These updates were intended to allow measurement of cost avoidance utilizing 1999 actual costs and USPS "updated" cost change factors. However, the USPS itself acknowledged significant flaws in these updated Library References, stating the following:

"More importantly, the Postal Service has serious concerns about some apparently anomalous results shown in the mail processing unit cost materials. These relate directly to the questions raised by Commissioner LeBlanc . . . . In its written response to his questions, filed on August 14th, the Postal Service noted a change in the IOCS method used to determine automation and non-automation costs for FY 1999. The effects of that methodological change seem to be substantial on some of the cost models. . . . With respect to the results which are being filed today in LR-1-467, 468, 471 and 472, the Postal Service would consider these in many respects to reflect the perils of an updating exercise conducted under a compressed time schedule, with insignificant

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highly subjective updated cost change factors. See June 29, 2000 Comments of ABA&NAPM upon USPS Motion To Reconsider Order No. 1294.

<sup>9</sup> USPS institutional response to ABA&NAPM/USPS-ST44-24, redirected from Patelunas, at Tr. Vol. 46C, Page 20697.

opportunity to review and evaluate the output."<sup>10</sup>  
(emphasis added)

This is hardly the type of ringing endorsement which would enable these Library References to constitute any type of "evidence" upon which the Commission could rely in calculation of cost avoidance.

Dr. Clifton was equally critical of these August 18 and 21, 2000 USPS Library Reference updates, noting in particular that they lead to the bizarre result of a fall in the value of non-automated presort FCLM from a positive 0.1 cent under the original USPS filing to a negative 3.0 cents, a percentage change of Three Thousand, Three Hundred (3,300%)<sup>11</sup>

Although ABA&NAPM do not recommend that the Commission utilize the August 18 and 21, 2000 USPS updated Library References LR-1-467 and LR-1-468, it is interesting to note that when Clifton and Bentley recalculated their Direct Testimony automated FCLM cost avoidance, using the August 18 and 21, 2000 USPS Updated Library References LR-1-467 and LR-1-468, the Cost Avoidance For Automated FCLM increased by 0.2 cents and 0.3 cents respectively, and the cost avoidance increments for 3 digit and 5 digit FCLM decreased by approximately 0.1 cents, which is an overall increase in cost avoidance, notwithstanding the impact of the USPS Order No. 1294 cost change factors biased against automated FCLM. See the middle column of Tables 1 and 2 at Exhibit A hereto.

Finally, there was the "post-midnight" August 25, 2000 Supplemental Response of United States Postal Service To POR No. R2000-1/116<sup>12</sup> in which

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<sup>10</sup> August 18, 2000 Response of the United States Postal Service to Presiding Officer's Ruling No. R2000-1/116.

<sup>11</sup> Clifton Revised and Updated Supplementary Testimony (ABA&NAPM-ST-1) at Tr. Vol. 45, Page 20088, Lines 14-20.

<sup>12</sup> The intervenors had no opportunity to conduct any discovery on this August 25, 2000 USPS supplemental filing; nor did they have the benefit of any technical conferences.

the USPS filed Library References LR-1-477 (updating still further LR-1-162 and 467, the USPS methodology) and LR-1-478 (updating still further LR-1-147 and 468, the Commission Methodology). The Postal Service explained that these revisions entailed recasting the FY 1999 IOCS data utilizing the FY 1998 IOCS methodology. This final supplemental filing resulted in a bizarre swing in cost avoidance figures. When incorporated into Dr. Clifton's and Bentley's cost avoidance calculations, the August 25, 2000 USPS updates dropped cost avoidance of automated basic FCLM by 0.5 cents and 0.7 cents per piece respectively from the level which resulted from the August 18 and 21, 2000 USPS filings which had utilized the 1999 IOCS methodology..<sup>13</sup>

These August 25, 2000 USPS updated Library References are flawed and have not been supported or adopted by any Postal Service or Intervenor witnesses. Indeed, in filing such Updated Library References, the Postal Service itself expressly stated:

"The Postal Service's consistent position has been and remains that the most appropriate data for use in this proceeding are the FY 1998 data upon which the Postal Service's proposals were based."

The USPS did go on to state that if "forced" to choose between use of the actual FY 1999 data with the 1998 IOCS methodology or the 1999 IOCS methodology, its preference would be the former. However, this is clearly not an endorsement by the Postal Service of its August 25, 2000 updated Library References utilizing the 1998 IOCS method, and does not constitute any basis for reliance upon such updated Library References.

In the limited time allowed intervenors to review and analyze these August 25, 2000 USPS updated Library References, without the benefit of any discovery

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<sup>13</sup> See Clifton Responsive Testimony (ABA&NAPM-ST-2) at Tr. Vol. 45, Page 20147 and August 29, 2000 Revised Supplemental Testimony of Bentley (MMA-ST-1) at Tr. Vol. 44, Pages 19082 and 19083.

or technical conferences, Dr. Clifton and Bentley still identified significant flaws in this filing. In particular, Dr. Clifton pointed out that the wild swings in cost avoidance which resulted from use of the 1998 IOCS methodology instead of the 1999 IOCS methodology suggested consideration of a range of cost avoidance levels, rather than relying exclusively on either extreme.<sup>14</sup> Mr. Bentley, on behalf of MMA, identified the following aberrations which resulted from the August 25, 2000 USPS updated Library References and their use of the 1998 IOCS methodology:

1. Although intended to reduce non-automated presort FCLM costs, the 1998 IOCS methodology inexplicably dropped costs for automated carrier route FCLM by 23%.

2. Unit costs for all presort FCLM increased 13% when the USPS was allegedly correcting a cost shift between the low volume non-automation presort and Basic letters.<sup>15</sup>

For the foregoing reasons, ABA&NAPM respectfully submit that the USPS filings in response to Order No. 1294, as supplemented by the numerous USPS responses to POR No. R2000-1/116, simply do not provide an evidentiary record upon which the Commission can make a reasoned judgment as to an accurate measurement of automated FCLM cost avoidance. Accordingly, the Commission should not rely upon any such filings in its calculation of automated FCLM cost avoidance,

**E. If The Commission Determines That It Will Use The USPS Order No. 1294 Filings To Calculate Automated FCLM Cost Avoidance, It Should Split The Difference In Cost Avoidance Between That Which Results From The 1999 IOCS Methodology And That Which Results From The 1998 IOCS Methodology, Giving More Weight To The 1999 IOCS Methodology.**

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<sup>14</sup> Clifton Responsive Testimony (ABA&NAPM-ST-2) at Tr. Vol. 45, Page 20146, Lines 1-11.

If the Commission determines that it will utilize the USPS Order No. 1294 filings to calculate automated FCLM cost avoidance, it would be most unreasonable to rely solely or even primarily upon the August 25, 2000 Library References LR-1-477 and LR-1-478, which utilize the 1998 IOCS methodology. To rely exclusively upon such August 25, 2000 USPS filings would raise significant due process concerns since ABA & MMA had only two to three workdays to analyze the August 25, 2000 USPS filings, before filing responsive testimony, and had to do so without the benefit of any discovery or technical conferences. It is very possible, and indeed likely in light of the history of this case, that these Library References still contain significant errors which could have been discovered and corrected through the discovery process. It may be that the 1998 IOCS methodology itself is fine, but there has been no opportunity to explore whether the use of that methodology in the August 25, 2000 USPS updated Library References was without significant errors.<sup>16</sup>

We submit, that if notwithstanding the numerous shortcomings discussed above, the Commission determines that it will utilize the USPS Order No. 1294 USPS filings to calculate cost avoidance for automated FCLM, it should average the results from the use of the FY 1998 IOCS methodology with the results of the use of the FY 1999 IOCS methodology.<sup>17</sup> Dr. Clifton did just this in his August 30 Responsive Testimony, stating, " . . . since there is no a priori reason to accept

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<sup>15</sup> Bentley Revised Supplemental Testimony (MMA-ST-1), August 29, 2000 at Tr. Vol. 44, Page 19081.

<sup>16</sup> Given all the uncertainties concerning the IOCS samples for 1998 and 1999, it may be that the Commission should revert to using the R97-1 methodology, in which non-automation presort mail processing costs were modeled, and not taken directly from the IOCS sample. The direct IOCS measurement by witness Miller produced in and of itself very different results in this case from those in R97-1, where such costs for non-automation presort were modeled. The 1998 versus 1999 IOCS method is just the latest in a set of problems experienced in this case in the measurement of mail processing costs for non-automation presort, but those problems create ricochet problems for the automation rate costs as well.

<sup>17</sup> Courts have allowed a ratemaking body to fashion its own adjustments and "split the difference" when neither of two suggested adjustments applied to inaccurate data is completely satisfactory. Association of American Publishers v. Governors of U.S. Postal Service, 485 F.2d 768 at 773 (D.C. Cir. 1973).

the one end versus the other of this range, one can take the midpoint . . . ".<sup>18</sup> Dr. Clifton then set forth the midpoints of cost avoidance for automated basic, 3 digit and 5 digit FCLM between that resulting from his incorporation of the August 18 and 21, 2000 USPS filings (which utilized the 1999 IOCS methodology) and that resulting from his incorporation of the August 25, 2000 USPS filings (which utilized the 1998 IOCS methodology). See Column 3 of Table 1 at Exhibit A hereto. Both this Clifton "midpoint" measure of cost avoidance set forth in his August 30, 2000 Responsive Testimony and the cost avoidance calculations set forth in his Direct Testimony fully support the automated FCLM discounts proposed by ABA&NAPM in this case.

**III. The Automated Cost Avoidance Estimates In This Case Are All Understated In That They Fail To Include Cost Savings From Compliance With Move Update Requirements And Several Other Worksharing Tasks Performed by Automated FCLM Mailers**

**A. What Is \$1.5 Billion In Move Update Savings Among Friends?**

Move update requirements were imposed upon automated FCLM in MC 95-1, but not single piece FCLM, to reduce mail forwarding and return costs. According to the Postal Service itself, the Move Update Program has been remarkably successful and has saved more than \$1.5 Billion in forwarding and return costs in FY '98 alone.<sup>19</sup> Yet the Postal Service wants to keep these savings to itself, and deny any cost avoidance credit for automated FCLM which has generated these savings.

USPS cost witness Miller (USPS-T-24) acknowledges this \$1.5 billion in move update savings and then cavalierly notes that he is not really familiar with

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<sup>18</sup> Clifton Responsive Testimony (ABA&NAPM-ST-2) at Tr. Vol. 25, Page 20146, Line 24.

<sup>19</sup> Response of United States Postal Services to Interrogatory MMA/USPS-1(j) at Tr. Vol. 21, Pages 8897 and 8899.

the Move Update Program and did not study it.<sup>20</sup> Indeed, Mr. Miller expressly admitted: "No attempt has been made to quantify what savings would, or should, be attributed to mailer Move Update compliance based on a percentage of returned and forwarded mail that might have been the result of different circumstances (e.g., the absence of a Move Update program)."<sup>21</sup>

This glaring omission of \$1.5 billion in move update savings underscores the narrowness of the USPS measure of automated FCLM cost avoidance. Mr. Miller left no stone unturned in his efforts to exclude various cost pools from the automated FCLM cost avoidance equation, thereby reducing his measurement of cost avoidance. Yet he makes no effort to quantify the impact of \$1.5 billion in move update savings upon automated FCLM cost avoidance.

The impact of the USPS's failure to consider move update savings in this case is made even greater by its use of the BMM benchmark. Mr. Miller stated that in 1999 the percentage of presort FCLM which was forwarded or returned was higher than that of non-presort FCLM, and he further stated that he was not surprised by the Price Waterhouse 1995 Study which showed that 88% of First Class UAA mail originated from businesses and not from households.<sup>22</sup> Yet he was apparently oblivious to the import of this fact, which is that the worst culprit for mail forwarding and return costs would be that very mail which Mr. Miller uses as a benchmark to measure cost avoidance . . . that is bulk metered mail. Logic dictates that BMM ( and indeed most single piece meter mail), which would be predominantly from businesses yet is not subject to move update requirements,

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<sup>20</sup> Miller Cross Examination at Tr. Vol. 7, Page 3159, Line 20 and Page 3160, Lines 1, 2 and 7. In declining to include move update savings in FCLM cost avoidance in R97-1, the Commission did so on the basis of the record in that proceeding. PRC Opinion and Recommended Decision in R97-1 at ¶ 5100. Now in this case the Postal Service acknowledges \$1.5 billion in move update savings but has purposely declined to make any effort to include any portion of those savings in FCLM cost avoidance. The Commission should not "reward" such behavior on the part of the Postal Service by continuing to deny automated FCLM discounts the benefit of such savings.

<sup>21</sup> Miller Response to Interrogatory MMA/USPS-T24-21(d) at Tr. Vol. 7, Page 3130.

<sup>22</sup> Miller Response to Interrogatory MMA/USPS-T24-21(a) at Tr. Vol. 7, Page 3129. Miller Cross Examination at Tr. Vol. 7, Page 3161, Line 16.



would have extremely high forwarding and return costs relative to automated FCLM which is subject to move update requirements. Yet Mr. Miller made no effort to capture these cost differences in his measure of automated FCLM cost avoidance.

It is also important to note that the Clifton and Bentley cost avoidance figures set forth in Exhibit A hereto at Tables 1 and 2 respectively, do not include any cost savings from move update requirements, although Bentley estimates that move update savings are 0.87 cents per piece.<sup>23</sup>

**B. The Postal Service, ABA&NAPM And MMA Cost Avoidance Estimates Also Exclude Savings From Many Other Significant Cost Saving Features of Automated FCLM.**

In addition to excluding move update savings, the automated FCLM cost avoidance calculations presented by the Postal Service in this case, and indeed those presented by Dr. Clifton and Mr. Bentley on behalf of ABA&NAPM and MMA respectively, as set forth in Tables 1 and 2 at Exhibit A hereto, exclude the following additional significant cost saving features of automated FCLM, and should therefore be viewed as narrow or conservative measures of automated FCLM cost avoidance:

1. The Potential For Reversion - If automated FCLM were to revert to the Postal Service as single piece FCLM, due for example to a dilution in the real value of discounts resulting from the freeze in discounts proposed by the Postal Service in this case, the Postal Service would be overwhelmed by mail volume and would incur extraordinary additional plant and equipment costs. The need to avoid this threat of reversion should be viewed by the Commission in this case, as it has been in the past, as a reason to make a less conservative, and consequently larger, measurement of automated FCLM cost avoidance.

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<sup>23</sup> Bentley Revised Supplemental Testimony (MMA-ST-1) (August 29, 2000) at Tr. Vol. 44, Page 19082, line 1.

2. Avoided Supply Costs - Automated FCLM mail must be presented in trays that are sleeved, strapped and labeled. Therefore the USPS avoids the cost of the materials to strap and label trays. As pointed out by NAPM witness MacHarg, the numerous National Postal Forum supply booths selling such items demonstrate that these are substantial costs avoided by automated FCLM.<sup>24</sup>

3. Customer Education - Presort Bureaus have assumed front line responsibility for educating mailers on how to make their mail automation compatible and this has substantially reduced the number of USPS Customer Service Representatives and Mail Analysts.<sup>25</sup>

4. Distribution of Trays - Presort Bureaus relieve the Postal Service of substantial costs by transporting trays to their customers.<sup>26</sup>

5. Reduction in Peak Worktime Activities - Automated FCLM Mailers negotiate earlier pick-up times with the Postal Service which alleviate peak load problems for the USPS. Single piece, or BMM mailers if any exist, have no incentive to deliver their mail early for the convenience of the USPS.<sup>27</sup>

6. Reduced Truck Fleet - Most Presort Bureaus pick up mail from their customers which would otherwise have to be picked up by the Postal Service. And workshare mailers deliver their mail directly to the appropriate USPS facility. This reduces the number of trucks necessary for the USPS fleet and therefore reduces USPS costs.<sup>28</sup>

#### **IV. The Bulk Meter Mail Benchmark Has Lost Its Usefulness And Sends The Wrong Signal To Mailers**

Use of Bulk Meter Mail as a benchmark to measure automated FCLM cost avoidance sends the wrong signal to mailers and abandons a substantial

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<sup>24</sup> MacHarg Direct Testimony (NAPM-T-1) at Tr. Vol. 26, Page 12140, Line 10.

<sup>25</sup> Id. at Page 12140, Line 22 - 12141, Line 26.

<sup>26</sup> Id. at Page 12142, Line 12.

<sup>27</sup> Id. at Page 12143, Lines 3-22.

<sup>28</sup> Id. at Page 12144, Lines 1-10.

percentage of single piece mailers as potential candidates for, and beneficiaries of, the USPS workshare program. Use of BMM as a benchmark sends a strong signal to consumers and workshare mailers that the Postal Service will not provide a discount to encourage them to automate single piece mail. The BMM benchmark then becomes a self fulfilling prophecy in that consumers and workshare mailers do not make the necessary effort to convert the more costly single piece mail into that automated mail which so benefits the Postal Service.

Indeed there is no evidence in this proceeding that any appreciable volume of BMM exists. As witness Miller admitted on an oral cross-examination, the "bulk metered mail" volume he relies on in his rebuttal testimony , "...is not what we would probably be defining as BMM."<sup>29</sup> Flats make up part of this volume, some of it is trayed by the Postal Service, itself, rather than mailers, and some of it is Standard Mail.<sup>30</sup> Witness Miller stated that the volume of flats, mail trayed by the Postal Service, and Standard Mail which is included in the volume labeled as BMM is not known,<sup>31</sup> which means that the volume of mail which could appropriately be used as a benchmark for First Class presort letters is not known. No expert testimony is required to prove that a known volume minus an unknown volume necessarily yields another unknown volume. Likewise, if the volume of "real BMM" is unknown, then neither the total costs attributable to BMM nor the attributable cost per unit can be known.

Single piece mail is the most appropriate benchmark. The potential of the P Rate proposal underscores this fact. Technology has now progressed to the point where single piece mail can be upgraded, thereby making single piece FCLM, not BMM, the true candidate for upgrading. As it did with its Appendix F when it had been overtaken by the automation discount structure,<sup>32</sup> the Commission should now discard BMM as an outdated benchmark.

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<sup>29</sup> Miller Cross Examination at Tr. Vol. 45, Page 19699, Lines 15-17.

<sup>30</sup> Id. at Page 19699, Lines 15-17, Page 19700, Lines 13-20, Page 19702, Lines 13&14.

<sup>31</sup> Id. at Page 19701, Line 12, Page 19702, Lines 8&9, 15-17.

<sup>32</sup> PRC Opinion - and Recommended Decision, ML 95-1 at ¶ 4293, Fn. 41.

**V. There Is No Basis In The Record To Increase The FCLM Extra Ounce Rate To Twenty-three Cents, As Proposed By The USPS; The ABA & NAPM Proposal To Leave Such Rate At Twenty-two Cents Should Be Recommended By The Commission.**

*ABA & NAPM have long been concerned that the extra ounce rates charged by the Postal Service, particularly for lighter weight letter automation mail, are not cost justified. Even before the advent of cost-reducing automation techniques in mail processing, prior USPS studies had indicated the marginal cost of two and three ounce letters was less than three cents, whereas the rates being charged have been several multiples of that. Adding to the belief that these rates are not cost-justified has been the continuing absence of any update to cost-weight studies for over a decade, despite repeated requests by the Commission and intervenors.*

In this case, the Postal Service attempted to update its cost-weight studies for First Class single piece and presort mail. It also updated the corresponding studies for Standard A commercial mail which were done for the last rate case. Witness Daniel's testimony included a new study she did on extra ounce which was used to defend the Postal Service's extra ounce rate proposals. The procedure she adopted amounted to throwing a lot of tough meat into a stew pot for slow cooking, having abandoned any hope of producing tender morsels of prime rib in each cost-weight increment.

There are several indications in the record that the extra ounce data for First Class presort mail introduced by the Postal Service in R-2000-1 are simply bad data, and not just in the higher weight ranges on which much of the debate has focused. First, USPS witness Daniel's marginal cost for a 1-2 ounce presort letter is 15.1 cents, as against pre-automation estimates of less than 3 cents. The

intervening decade between the two studies was one of low inflation as well as cost-reducing automation, so the 15.1 cent result is not credible, nor is the 13.4 cent marginal cost estimate for a 2-3 ounce presort letter.<sup>33</sup>

Second, in the lighter weight ranges where most of the extra ounce volume occurs, the erratic nature of witness Daniel's marginal cost data for First Class presort letters contrasts with the smooth and predictable, i.e. credible, results for Standard A Regular and ECR letters. Third, the marginal costs for the second and third ounces of Standard A commercial Regular letters resemble the data for First Class presort from the earlier USPS study, which for historical reasons noted above and in Dr. Clifton's direct testimony should come closer to current costs for First Class presort than the bad data for First Class presort proffered by the Postal Service in this case. All of these points are discussed in ABA&NAPM witness Clifton's direct testimony in this case, and are summarized in his Figure 8 and Table Eleven.<sup>34</sup>

In the lighter weight ranges for the presort all - shapes data witness Daniel passes on to First Class rate witness Fronk, the lack of credibility is epitomized by the \$433.11 cost she derives for a 0 – ½ ounce presort parcel.<sup>35</sup>

The Postal Service's position in this case is in essence that if you cook all the tough meat long enough in a single stew pot, it will be edible as an overall estimate of extra ounce costs. ABA&NAPM maintain that such an approach: (1) ignores the marginal costs in the lighter weight ranges that are the primary area of interest, e.g. with respect to the setting, and proposed extension, of the heavy piece discount; (2) is little more than an effort to cover up a lot of very bad data in all weight ranges; and (3) fails, unlike its Standard A counterpart, to be the

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<sup>33</sup> USPS witness Daniel's 2-3 ounce marginal cost of 6.7 cents for presort all shapes might fall within the range of plausibility compared to the earlier weight study. But that figure cannot be used to support the Postal Service's proposed 23 cent extra ounce rate.

<sup>34</sup> Clifton Direct Testimony (ABA&NAPM-T1) at Tr. Vol. 26, Pages 12453 & 12454.

<sup>35</sup> Clifton Cross Examination at Tr. Vol. 26, Page 12679, Line 1.

updated cost – weight study for First Class that has been requested by the Commission and intervenors for several cases now.

USPS witness Daniel's low coefficient of determination for First Class presort letter extra ounce data, 0.465,<sup>36</sup> is one statistical indication that USPS has not submitted with its case a credible cost-weight study on which to base the extra ounce rate and heavy piece discount. Its position is that such a low "R-squared" is superfluous because it decided, instead of doing an appropriate cost-weight study, to just throw all its tough meat into a single stew pot. ABA&NAPM maintain that such a low "R-squared" is one piece of evidence that the data are bad. Witness Clifton showed that if one assumes the data are good, one would need a much larger sample size of IOCS tallies to establish the meaningfulness of the cost-weight study for First Class presort letters than was in fact established by witness Daniel. But, whether one uses her low R-squared value or witness Clifton's high minimum sample size, all the evidence points to either: (1) bad data, or (2) highly inadequate sample sizes. As stated under oral cross examination, witness Clifton believes the problem is likely not sample size, but bad data for First Class presort letters, which are a major input into witness Fronk's determination of the extra ounce rate.<sup>37</sup>

The Postal Service has attempted to hide the problems with this data by producing USPS witness Ramage's "GVF" measure of statistical reliability.<sup>38</sup> In rebuttal to ABA&NAPM witness Clifton's and other intervenor critiques of the

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<sup>36</sup> Clifton Direct Testimony (ABA&NAPM-T1) at Tr. Vol. 26, Page 12449, Table Nine.

<sup>37</sup> Clifton Cross Examination at Tr. Vol. 26, Page 12678, Line 19.

<sup>38</sup> If variances of the sample data are high but the mean of the data is also (erroneously) high one can produce low c.v.'s (i.e. a showing of statistical significance) by dividing a large variance by a large mean. For example, witness Daniel's results show the unit cost of an 8-9 ounce presort letter in an extraordinary \$7.52, clearly an error from bad data. A high variance for that weight cell divided by a highly flawed and excessive mean of \$7.52 would produce a low c.v., but this is due to the excessively high and flawed mean. The GVC measure of statistical significance used by Ramage and supported by Bozzo is not valid in the presence of bad data which create an erroneously high mean extra ounce cost for First Class presort letters.

USPS extra ounce data, Bozzo (USPS-RT-18) has testified as to a claimed integrity of such USPS data. But, for the reasons explained above, ABA&NAPM propose that the Commission reject the extremely dubious cost basis for the Postal Service's First Class extra ounce rate in this case, and accept the cost basis for the extra ounce proposals witness Clifton puts forth in this case.

**VI. ABA&NAPM's Unrebutted Proposal To Extend The 4.6 Cent Heavy Weight Discount To The Second Ounce of First Class Presort Mail Corrects An Illogical Glitch In The Presort Rates, And Would Provide A Much Needed Incentive To Increase The Volume Of Automated First Class Flats**

Clearly, the Postal Service has a problem with its increasing costs to process flat mail. An essential element of any reduction in these flat processing costs is an increase in the number of automated flats which are delivered to the Postal Service. The ABA&NAPM proposal to expand the 4.6 cents heavyweight presort discount so that it covers presort letters and flats weighing more than 1 ounce (instead of being limited to presort mail weighing more than 2 ounces as is currently the case) is cost justified,<sup>39</sup> and will provide substantial help in increasing the volume of second ounce automated mail, particularly flats, delivered to the Postal Service.

There is currently an anomaly in the rate structure for second ounce flats which depresses the volume of automated flats. Because the 11 cent non-standard surcharge which applies to single pieces weighing one ounce or less is reduced to 5.0 cents for presorted flats, the total discount available for First Class automated 3 digit and 5 digit flats weighing 1 ounce or less is 10.5 (4.5 plus 6.0) and 12.5 (6.5 and 6.0) cents respectively. Because the 4.6 cents Heavyweight Incentive currently applies to automated 3 digit and 5 digit First Class Flats

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<sup>39</sup> Dr. Clifton finds at least 4.7 cents cost savings for the second ounce of presort FCLM, even using USPS witness Daniel's own unit cost data. Clifton Direct Testimony at Tr. Vol. 45, Page 12457, Lines 1-6.

weighing more than 2 ounces, the discount for such flats is 9.1 and 11.1 cents respectively (the 6.0 cents non-standard surcharge differential is lost, but the 4.6 cents Heavyweight Incentive is gained, resulting in an incentive of 1.4 cents less than the flat weighing 1 ounce or less). However, the 2 ounce First Class automated 3 digit and 5 digit flat gets the benefit of neither the 6.0 cents reduction in the non-standard surcharge, nor the 4.6 cents Heavyweight Incentive, and therefore has a discount of only 4.5 cents and 6.5 cents respectively. This discount is inadequate and is a serious disincentive for automation.

Dennis MacHarg, the President of the National Association of Presort Mailers, testified that the ABA&NAPM proposal to extend the 4.6 cent Heavyweight Incentive to the second ounce automated First Class Flat would encourage workshare mailers to prebarcode this second ounce flat.<sup>40</sup>

The merit of this ABA&NAPM proposal to extend the 4.6 cent Heavyweight Presort Discount to the second ounce is further demonstrated by the fact that no witness from the Postal Service or any Intervenor has rebutted this proposal.

**VII. The ABA & NAPM Discount And Rate Proposals Result In Cost Coverages Which Are More Consistent With Fairness And Equity And With Prior Commission Precedent, And Are Supported By Dr. Clifton's Cost Models Which Demonstrate That They Can Be Implemented Without Causing Any Deficit In the Test Year**

Dr. Clifton presented detailed economic models demonstrating that all of the ABA&NAPM discount and rate proposals could be adopted without causing a deficit for the Postal Service in TY 2001.<sup>41</sup>

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<sup>40</sup> MacHarg Direct Testimony at Tr. Vol. 26, Page 12146, Line 13-20.

<sup>41</sup> This is in marked contrast to the First Class discount proposals of intervenors such as E-Stamp, Stamps.Com and Pitney Bowes who offered no similar models demonstrating the impact of their proposed discounts upon USPS costs and revenue.



In Technical Appendix A.5 to Dr. Clifton's Direct Testimony, he demonstrates that the TY 2001 effect of all of the ABA&NAPM proposals combined would result in a change in net surplus of negative \$595 Million. Dr. Clifton then demonstrates at Technical Appendix A.5 of his Direct Testimony that through a modest uniform 0.634 cent increase in rates and decrease in discounts of Standard A Commercial Mail, the ABA&NAPM rate and discount proposals could be implemented with a zero deficit. This would result in a modest increase in the cost coverage for Standard A Commercial Mail from 148.2% as proposed by the Postal Service to 155.1%, for ECR from 208.8% as proposed by the Postal Service to 214.3%, and for Standard A Commercial Regular from 132.9% as proposed by the Postal Service to 142.1%.<sup>42</sup> Dr. Clifton points out that such a modest shift in cost coverages would still keep Standard A Regular and ECR cost coverages well within their recent ranges, while moving the cost coverage for First Class Mail closer to the All Mail and Special Services average.<sup>43</sup> Alternatively, Dr. Clifton notes that the \$595 Million associated with the ABA&NAPM proposals could be offset by reducing the USPS proposed 2.5 % contingency to 1.25% for attributable costs and to 1% for institutional costs.<sup>44</sup>

In his August 23, 2000 Revised and Updated Supplementary Testimony, Dr. Clifton presented Technical Appendix BCR.2 in which he incorporates into his original technical Appendix A.5 the USPS Order No. 1294 revisions, balanced cost reduction assumptions, a modestly lower contingency (i.e., 2%) and a modest increase in Standard A commercial mail cost coverage (but less of an increase ( 0.5 cents) than was used in his original Technical Appendix A.5). The result is a zero deficit in TY 2001.<sup>45</sup> The balanced cost reductions reflect a reasonable assumption by Dr. Clifton that the USPS management team would

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<sup>42</sup> Clifton Direct Testimony (ABA&NAPM-T1) at Tr. Vol. 26, Page 12463, Lines 5-14.

<sup>43</sup> Id. at Page 12463, Lines 16-19.

<sup>44</sup> Id. at Page 12463, Line 28.

<sup>45</sup> Clifton Revised and Updated Supplementary Testimony (ABA&NAPM-ST-1) at Tr. Vol. 45, Page 20100, Lines 5-25. This zero deficit does not incorporate the additional \$200 Million field reserve expense noted by the Postal Service on August 11, 2000. However, Dr. Clifton notes that this additional \$200 Million could be offset by

treat First Class Worksharing Mailers fairly in the allocation of Postal Service efforts to reduce mail processing costs for automated letter mail, reducing those costs by 0.2 cents in the test year by bringing seven cost pools into alignment with their Standard A Commercial Regular automation mail counterparts, and one cost pool into alignment with its Standard A Commercial Regular non-automation counterpart.<sup>46</sup>

The modest adjustment in cost coverage of First Class and Standard A Mail suggested by Dr. Clifton leaves the cost coverages for Standard A Regular and ECR Mail well within their recent ranges, while moving the cost coverage for First Class Mail closer to the All Mail and Special Services Average. This is a move in the direction supported by prior Commission precedent, and is a modest step towards reducing the existing disparity between cost coverages of these two major classes of mail, and is fully consistent with the ratemaking principals of 39 U.S.C. § 3622(b).<sup>47</sup>

As pointed out by Dr. Clifton in his Direct Testimony, notwithstanding the stated goal of the Commission in R-90 to keep First Class cost coverage close to the average for all mail, since 1994 the cost coverage for First Class Presort Mail has continued to increase substantially, causing First Class Mail cost coverage to rise more and more above the system average, while cost coverage for Standard A Regular Mail has continued to be well below the system-wide average since 1994.<sup>48</sup> The unfairness of this disproportionate burden of total institutional costs borne by First Class Mail is particularly evident when one focuses on the disproportionate percentage of delivery costs which are borne by First Class in general and First Class presort mail in particular, relative to Standard A Mail.<sup>49</sup>

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adopting more aggressive balanced cost reductions for First Class Workshared Mail or by reducing the contingency below 2%. *Id.* at Page 20101, Lines 21-26.

<sup>46</sup> *Id.* at Page 20100, Lines 9-14.

<sup>47</sup> Clifton Direct Testimony (ABA&NAPM-T1) at Tr. Vol. 26, Page 12463, Lines 16-19.

<sup>48</sup> *Id.* at Page 12456, Lines 13-20 and 12459 (Table Twelve). See also PRC Opinion and Recommended Decision, R90-1, IV-8 ¶ 4022.

<sup>49</sup> *Id.* at Page 12462 (Table Fourteen).

In summary, the discounts and rates proposed by ABA&NAPM in this case can be accomplished with a zero deficit and with a resulting cost coverage for First Class Mail and Standard A Mail which is fair and equitable and which is consistent with prior Commission precedent.

#### **VIII. The Postal Service's Requested Contingency is Too Large**

The Postal Service's original filing in this case, in January, requested a contingency fund designed to reflect the fiscal uncertainties it will face in the test year. Since the original filing, the Postal Service has, at the direction of the Commission, submitted FY99 data to replace the FY98 data used in its original filing and has submitted updated data as recently as August 25.

Several factors affect the level at which the Commission should set the contingency.. We submit that one of the pertinent factors is the fact that with much of the data on which the Postal Service's rate case having been updated as recently as five weeks before the test year is scheduled to begin, there is less uncertainty about what will happen in the test year than there was when the original data, much of it FY98 data, was submitted over eight months before the test year will begin.

This reduced uncertainty provides additional support for ABA&NAPM witness Clifton's proposal in his Direct Testimony and in his Revised and

Updated Testimony<sup>50</sup> to make relatively modest reductions to the 2.5% contingency requested by the USPS.

**IX. The ABA & NAPM P Stamp Proposal Is Innovative, Not Complicated, And Unlike the PC Postage, Meter, And CEM Discount Proposals, Would Allow All Single Piece Mailers To Benefit From the USPS Automation Program**

Under ABA&NAPM's P Rate proposal, a mailer, consumer or business, would place a letter in a specially marked, privately-owned collection box. A workshare mailer would provide the collection box, pick up mail deposited in it, and process the mail collected to make it qualify for a worksharing discount. The originator of the mail would put postage on the letter at the P Rate (32 cents, assuming a 34 cents single piece FCLM rate). The workshare mailer would process this P Rate mail, deliver it to the Postal Service, pay the rate for the rate category for which the mail qualifies, and get credit for the 32 cents P Rate postage which was originally applied by the mailer. (See Dr. Clifton's explanation of this proposal beginning at page 35 of his Direct Testimony. Tr. Vol. 26, page 12435).

Assuming for example that the 6.6 cent discount for Automated Basic FCLM proposed by Dr. Clifton is adopted, the operation of the 2.0 cent P Rate discount would be as follows: If a letter bearing P Rate postage was, through the efforts of a workshared mailer, processed to the point where it qualified for

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<sup>50</sup> Clifton Direct Testimony at Tr. Vol. 26, Page 12463; Clifton Revised And Updated

example for the Automated Basic Rate, the workshare mailer would receive credit from the Postal Service for the difference between the 27.4 cent Automated Basic Rate and the 32.0 cent P Rate. If the workshare mailer were unable to upgrade the letter to qualify for a discount, the workshare mailer would pay the Postal Service the difference between the 32-cent P Rate and the single piece rate.

The hallmarks of the P Rate proposal are its flexibility and simplicity. Dr. Clifton's P Rate proposal would allow the widest range of mailers to reap the benefits of worksharing. The P Rate would require neither computer nor meter, but would provide a discount for mail using either to apply postage. Consumers and businesses of all sizes could avail themselves of this rate for letter-sized First-Class Mail. Unlike the PC postage and metered mail discount proposals, the P Rate would make a single discount available to the broadest range of mailers. Whereas CEM would require the use of special envelopes by consumers, the P Rate would allow the use of a normal envelope and would provide the same delivery savings to the Postal Service as CEM mailed to the same address.

The proposed P rate is cost justified as it would fit into the existing structure of worksharing activities for which highly complex calculations of cost avoidance already exist. Worksharing mailers now divide in some proportion the USPS discounts: first, they must cover their own costs and earn a normal profit; second, they must negotiate with their customers what rate they will pay, and this

entails some of the USPS discount being passed on to customers. The same process would apply to the P rate, but the level of sharing would be set in each rate case in which workshare mailers and all potential P Rate users would be represented.

Under the P Rate proposal everybody wins, and the workshare mailer, not the Postal Service, takes the risk of not being able to upgrade the mail. The consumer keeps the entire 2 cent differential between the P rate and the stamp rate; the participating workshare mailer gets more volume, and the Postal service gets to substitute the highly efficient automated FCLM for the more costly single piece mail.

**X. The E-Stamp PC Postage Discount Proposal Is Based Upon Gross Over Estimates Of Cost Avoidance Which Are Measured In A Vacuum And Fail To Take Account Of Real World USPS Mail Processing Operations**

E-Stamp Corporation has proposed a 4.0 cent discount for single piece First Class Mail letters with an Open System PC Postage product printed directly on the envelope.<sup>51</sup> For the reasons explained herein, the cost savings presented by E-Stamp to justify such discount are based upon the incorrect assumption that PC Postage Mail will be delivered in bulk, instead of single piece, and that such mail will be trouble-free for the Postal Service. Most importantly upon an absolute ignorance of the impact of PC Postage Mail upon actual Postal Service mail stream operations.

E-Stamp witness Jones claims that "the only difference between bulk mail preparation and the single piece mail prepared with PC Postage is the lack of

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<sup>51</sup> Jones Direct Testimony (E-Stamp-T1) at Tr. Vol. 29, Page 13651.

presorting" and that inspections of PC Mail are not necessary.<sup>52</sup> Yet on cross examination, Mr. Jones was forced to admit that PC Postage software does not prohibit oversized mail, does not prohibit overweight and underpaid mail, does not prohibit fraud and that the USPS would in fact have to inspect such mail.<sup>53</sup>

E-Stamp witness Prescott attempts to measure cost avoidance of PC Postage Mail essentially as follows: he claims that the value of the barcode in PC Postage is equal to the difference between non-barcoded presort mail and barcoded presort mail; he then subtracts from this difference what he claims is the value of presortation by taking the difference between presorted BMM and non-presorted presort BMM.<sup>54</sup> Initially it should be noted that in his second step, Prescott should have compared presort non-automation letters to single piece letters, rather than to "single piece BMM," since, as E-Stamp witness Jones himself admits, PC Postage Mail is delivered as single piece and not in trays.<sup>55</sup> Instead, Prescott compared presort non-automated letters to "single piece BMM" and "non-presorted BMM" in his Tables 1 and 2 respectively, thereby increasing his cost avoidance measurement.<sup>56</sup>

But perhaps most importantly, Mr. Prescott has calculated his theoretical cost avoidance in a void which takes no account of the impact of PC Postage on current Postal Service mail processing operations. Mr. Prescott expressly admitted this fact. When asked whether he had an intricate knowledge of the USPS mail processing operations and how they would handle IBI he stated, "no I have not done a study of the flow for the IBI mail".<sup>57</sup> When asked to admit that the flow of IBI mail through USPS mail processing operations would be relevant

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<sup>52</sup> Id. at Page 13645, Lines 7-9, and 16.

<sup>53</sup> Jones Cross Examination at Tr. Vol. 29, Page 13712, Lines 10, 22, and 24 and Page 13713, Line 5.

<sup>54</sup> Prescott Direct Testimony (E-Stamp-T2) at Tr. Vol. 29, Pages 13762 and 13763.

<sup>55</sup> Jones Response to Interrogatory ABA&NAPM/E-Stamp-T1-1 at Tr. Vol. 29, Page 13659.

<sup>56</sup> Prescott Direct Testimony (E-Stamp-T2) at Tr. Vol. 29/13762, Line 10 and 13763, Line 19.

<sup>57</sup> Prescott Cross Examination at Tr. Vol. 29, Page 13810, Lines 2-6.

to actual cost avoidance of such mail, Mr. Prescott stated, "It is relevant but it is not available, so we had to find a surrogate".<sup>58</sup>

Assume for example, the following likely normal USPS mail stream operations: i.) the USPS takes collection box mail, including IBI mail, and culls out the barcoded mail, including IBI mail, on an AFC ( the "culled barcoded mail"); ii.) it then places the non-prebarcoded mail through MLOCR to place a barcode on it (the "newly barcoded mail"); iii.) it then combines this newly barcoded mail with the culled barcoded mail in order to obtain the desired volume to give the necessary depth of sort, and places this combined mail stream on the next run. In this example, the only cost savings which the IBI mail would afford over the non-barcoded mail would be the single run of that non-barcoded mail through the MLOCR. This example underscores how speculative are the "surrogate"-derived cost estimates which are utilized by E-Stamp witness Prescott to support his 4.0 cent discount for PC Postage Mail.

**XI. The Stamps.com PC Postage Discount Proposal And The Pitney Bowes Meter Mail Discount Proposal Are Each Based Upon Cost Savings Which Are Also Recognized By Automated FCLM But Which Are Not Reflected In Automated FCLM Discounts**

Stamps.com witness Heselton (Stamps.com-T-1) proposes a discount for single-piece First Class letters prepared and addressed according to Information Based Indicum Program (IBIP) procedures. He bases these discounts partly on 1.14 cents per piece of avoided return to sender costs, and partly on 2.99 cents mail preparation savings over single piece handwritten letters.<sup>59</sup>

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<sup>58</sup> Id. at Page 13810, Lines 7-11.

<sup>59</sup> Heselton Direct Testimony (Stamps.com-T1) at Tr. Vol. 33, Pages 10458 & 10462.



Pitney Bowes witness Haldi (PB-T-2) proposed a discount for single-piece First-Class metered mail. He estimates that metering saves 2.3 cents per piece over stamped mail.

The address update savings and savings over single piece handwritten mail noted by witness Heselton and the metering savings set forth by Witness Haldi are also achieved by automated FCLM, which does not use stamps and which must comply with move update and other automation standards. Address quality of automated FCLM produced on MLOCs with Fast Forward is every bit as good as that of IBIP mail. The increased discounts proposed by ABA & NAPM witness Clifton were calculated without including these cost savings. The testimony of witnesses Haldi and Heselton therefore provides further evidence that the discounts and rates proposed by Clifton are not only justified but also quite conservative.

Each of these proposals is based on a single piece benchmark, as opposed to the Bulk Metered Mail benchmark with which automated FCLM is burdened. The single piece benchmark would also be the most appropriate benchmark for automated FCLM.

## EXHIBIT A

Table 1 - Cost Avoidance - ABA & NAPM

	Clifton Direct (ABA & NAPM-T-1) (99 Projected Costs)	Clifton 8/23/2000 (ABA & NAPM-ST-1) (99 Actual Costs/99 IOCS)	Clifton 8/30/2000 (ABA & NAPM-ST-2) (99 Actual Costs/98/99 IOCS midpoint)
FCLM Auto	6.575	6.768	6.648
FCLM 3-digit	1.085	0.976	1.056
FLCM 5-digit	1.370	1.260	1.322

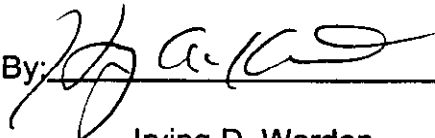

Table 2 - Cost Avoidance - MMA\*

	Bentley Direct (MMA-T-1) (99 Projected Costs)	Bentley 8/23/2000 (MMA-ST-1) (99 Actual Costs/99 IOCS)	Bentley 8/29/2000 (MMA-ST-1) (99 Actual Costs/98 IOCS)
FCLM Auto	6.91	7.21	6.53
FCLM 3-digit	1.52	1.40	1.58
FLCM 5-digit	1.87	1.73	1.95

- \* These Bentley cost avoidance figures are the conservative actual worksharing related cost savings from his Tables 1 and 2, and not the higher "Potential Total Worksharing Unit Savings" from those Tables 1 and 2, which potential savings included savings from move update, mandatory prebarcoding of reply envelopes and averted window service costs. See Bentley Revised Supplemental Testimony (MMA-ST-1) (revised August 29, 2000) at Tr. Vol. 44, Pages 19082 & 19083.

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION  
NATIONAL ASSOCIATION OF PRESORT  
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**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

  
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Irving D. Warden

September 13, 2000